

Message Text

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ACTION EUR-25

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C O N F I D E N T I A L USNATO 0904

E.O. 11652: GDS 80

TAGS: MCAP EFIN NATO

SUBJECT: NON-RECURRING COST RECOVERY FOR NATO SATCOM PHASE III

REFS: A. DD FORM 1513 FOR AIR FORCE FMS CASE N2-SAR, AMEND 1,
DTD 14 NOV 73

B. NICSMA/HB(74)6, DTD 14 JAN 74

C. AC/4(P)WP/1007, DTD 7 FEB 74

D. AC/259-D/321(REV), 3 DEC 73

E. DOD DIRECTIVE 2140-2, DTD 23 JAN 74

F. DP/4-R/625, 29 APR 68, ITEM I

G. DP/4-R/619, 5 JUN 68, ITEM I

BEGIN SUMMARY. MAJORITY OF REVISED COSTS FOR SAMSO PROCUREMENT OF SATCOM III SPACE SEGMENT (REF A) HAS BEEN APPROVED BY NATO PAYMENTS AND PROGRESS (P&P) COMMITTEE. HOWEVER, \$250,000 ITEM FOR NON-RECURRING COST RECOVERY CHARGES WAS NOT APPROVED. ACTION REQUESTED: SUPPLY OF DATA JUSTIFYING US REQUEST FOR NATO ASSUMPTION OF THESE CHARGES. END SUMMARY.

1. ON 14 FEB 74 P&P COMMITTEE DISCUSSED REF A ALONG WITH NICSMA COMMENTS (REF B) AND NATO INTERNATIONAL STAFF (NIS) RECOMMENDATIONS (REF C). COMMITTEE AGREED TO MOST POINTS REQUESTED BY
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NICSMA BUT DEFERRED ACTION ON NON-RECURRING COST RECOVERY CHARGE PENDING US RESPONSE TO QUESTIONS RAISED BY NIS AND NETHERLANDS REP.

2. THESE QUESTIONS ARE SUMMARIZED BELOW, TOGETHER WITH MISSION

COMMENTS. MISSION BELIEVES SUBJECT COST CAN BE SUCCESSFULLY EXPLAINED TO P&P COMMITTEE, PROVIDED SUFFICIENT SUPPORTING INFORMATION CAN BE MADE AVAILABLE.

3. NIS QUESTIONS ARE BASED ON ASSUMPTION THAT NATO IS NOT PROCURING AN EXISTING SATELLITE DESIGN AS IT DID FOR SATCOM II. INSTEAD NATO HAS SPECIFIED ITS OWN PERFORMANCE REQUIREMENTS. THEREFORE NIS CONCLUDES THAT THIS PROCUREMENT IS FOR A UNIQUE "ONE OF A SERIES" ITEM, UNRELATED TO ANY PRIOR SATELLITES WHICH THE US MAY HAVE PRODUCED. SEVERAL QUESTIONS FOLLOW FROM THIS PREMISE.

A. QUESTION. SINCE THE SATCOM III PROGRAM AMOUNTS TO \$33 MILLION IN HARDWARE PROCUREMENT, HOW CAN IT BE SHOWN THAT IT SATISFIES THE \$50 MILL/\$200 MILLION CRITERIAL DESCRIBED IN PARA 16, REF D (SECT I.A. 1 AND 2 OF REF E)? COMMENT. MISSION ASSUMES THAT COMPONENT TECHNOLOGY USED AS BASIS FOR SATCOM III IS TRACEABLE TO PREVIOUS US GOVERNMENT SATELLITE PROGRAMS, AND TOTAL COST OF ALL PROGRAMS TAKEN TOGETHER MEET THESE "THRESHOLD" CRITERIA FOR APPLICATION OF POLICY. ADDITIONAL INFORMATION AS TO SPECIFIC COMPONENT TECHNOLOGY INVOLVED COULD BE USEFUL AT THIS POINT FOR ILLUSTRATIVE PURPOSES.

B. QUESTION. SINCE THE SATCOM III DESIGN IS NEW, AND SINCE NATO IS THEREFORE PAYING SEPARATELY, AS PART OF THE PROGRAM COST, FOR THE DESIGN, DEVELOPMENT, TEST, EVALUATION AND PRODUCTION OF ALL THE SATELLITE COMPONENTS, WHAT ELEMENTS OF US NON-RECURRING COST ARE INVOLVED FOR WHICH THE US SEEKS RECOUPMENT? COMMENT. AGAIN, MISSION ASSUMES THERE EXISTS COMPONENT TECHNOLOGY TRACEABLE TO PREVIOUS US PROGRAMS, AND THAT INDEPENDENT DEVELOPMENT OF THIS TECHNOLOGY BY NATO FOR THIS SATELLITE COULD COST FAR MORE THAN 250,000. IDENTIFICATION OF SPECIFIC ITEMS INVOLVED IS NEEDED. NIS IS ASKING US TO STATE EXACTLY WHAT TECHNOLOGY IS BEING PAID FOR AND IN WHICH COMPONENTS. MISSION FEELS THAT FORTHRIGHT RESPONSE WILL SATISFY CONCERN ON THIS POINT.

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C. QUESTION. WHAT IS APPROXIMATE VALUE OF TECHNOLOGY INVOLVED IN SATCOM III WHICH US CLAIMS IS PROPRIETARY TO THE US GOVERNMENT, AND WHAT PERCENTAGE OF THAT VALUE IS BEING ASSESSED TO NATO FOR THIS PROCUREMENT? COMMENT. MISSION FEELS THAT FORTHCOMING ANSWER TO THIS QUERY COULD PROVE ADVANTAGE OF BUYING U.S. THE ALTERNATIVE IS FOR NATO TO PAY FULL PRICE OF DUPLICATING THE TECHNOLOGY.

4. NETHERLANDS DELEGATE REFERRED TO RECORDS OF NATO INFRASTRUCTURE COMMITTEE DISCUSSION OF SIMILAR PROBLEM IN PROCUREMENT OF SATCOM II, (REF F) AND ASKED WHETHER US WOULD AGAIN BE WILLING TO PROVIDE NATO ADDITIONAL TECHNICAL DOCUMENTATION AND INFORMATION AS WAS PREVIOUSLY DONE. NETHERLANDS FURTHER INDICATED THAT IT

WOULD FIND IT NECESSARY TO OBTAIN ASSURANCES FROM THE US ALONG THE LINES OF THOSE RECORDED IN REFS F AND G CONCERNING "BASIC" OR "PURE RESEARCH" COSTS. MISSION FEELS THE NETHERLANDS WILL BE SATISFIED IF SIMILAR ASSURANCES CAN BE GIVEN AND SIMILAR DATA PROVIDED AS WAS DONE FOR SATCOM II.

5. MISSION IS WELL AWARE THAT COSTS INVOLVED IS SMALL IN THIS INSTANCE, AND THAT US MIGHT WELL ARGUE THAT OBJECTIONS TO THIS ELEMENT IN PROGRAM SHOULD HAVE BEEN MADE PRIOR TO LAST YEAR'S AUTHORIZATION AND CONTRACT ACTION. NEVERTHELESS, MATTER IS AN IMPORTANT ITEM OF PRINCIPLE WHICH COULD ESTABLISH AN EXPENSIVE PRECEDENT FOR FUTURE INFRASTRUCTURE PROCUREMENT. IN ADDITION, OTHER DELEGATIONS ARE AWARE OF WAIVER PROVISIONS IN US POLICY AS RESULT OF BILATERAL SALES NEGOTIATIONS BETWEEN THEIR GOVERNMENTS AND THE US. WITH THE PROVISION OF ADEQUATE SUPPORTING DATA AND INFORMATION AS OUTLINED ABOVE, MISSION HOPES THAT P&P COMMITTEE WILL ACCEPT THIS CHARGE WITHOUT REPETITION OF 1968 LENGTHY DEBATE. SUBJECT IS NOW DEFERRED PENDING US RESPONSE. AN EARLY REPLY WOULD BE ADVANTAGEOUS IN OBTAINING NIS SUPPORT AND COMMITTEE APPROVAL.
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